

STATEMENT OF CHARLES SWINBURN, ACTING ASSISTANT SECRETARY
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BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING AND
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Mr. Chairman and Members of the Committee:

Good morning.

I am pleased to appear today to talk about our transportation system's capacity to move agricultural products to market and specifically to move export grain to our ports. You have indicated particular concerns about rail track capacity, about the availability of rail rolling stock, about the condition of the road system and of our trucking industry, and, finally, about our water transportation system.

First, let me assure you that Secretary Goldschmidt shares your concerns about the adequacy of our current system. Our opinion is that the system is adequate, but barely so, and a great deal needs to be done so that it can accommodate future growth and the special problems of peak movements that are sure to come up. Secretary Goldschmidt is deeply interested in the free flow of agricultural products from the farm to ships which will carry these products to foreign consumers. He has directed us to review all aspects of this movement to make sure that no problem is being overlooked by the Department.

If I may say so, our current efforts are extensive and I feel that we have a positive report to give you about the Department's policies and

programs for dealing with problems of agricultural transportation. Before reviewing the basic situation in rail, highway and water transportation, let me mention two multi-modal initiatives directly specifically at agricultural transportation problems.

You are, I am sure, familiar with the Rural Transportation Advisory Task Force. This group, chaired by the Secretaries of Transportation and Agriculture, was established by legislation which originated in this committee. The Task Force has been extremely active, and a number of staff members of our Department have been working closely and fruitfully with the Department of Agriculture in supporting the Task Force's efforts. The Task Force will provide a comprehensive review of the current situation in the movement of farm products and will offer a wide range of recommendations.

As one of his first and highest initiatives, Secretary Goldschmidt has asked us to work with staff of the Department of Commerce to jointly study the effectiveness of our transportation system in moving goods from places of production to and through our ports. While this study will be concerned with all exports, it will have a special focus on grain movement problems. Secretary Goldschmidt is acutely aware of the importance of a free flow of grain to the United States balance of payments and to the strength of the dollar on the world's money exchanges. We are taking steps to direct State and regional planning authorities to give closer attention to freight movement problems and port problems in their planning activities.

Turning next to the question of the railroads' ability to move grain, I note that there are two aspects to the question: track capacity and car availability. Briefly put, the Department's view is that we have more than enough track capacity. Indeed, some restructuring, leading to a reduction in rail facilities, is required. On the other hand, there is a serious problem concerning the railroads' ability to respond effectively to peak demands for cars. We believe that the solution to this latter problem lies in regulatory reform.

Before discussing these matters in detail, permit me to observe that, despite all of their well-known problems, the railroads have succeeded in moving ever-increasing quantities of grain. Exports of grain set a record of 4.2 billion bushels in 1978, an increase of 25 percent over the 1977 level. Exports in 1979 have been ahead of the 1978 pace. The railroad industry, which reported a 23 percent increase in grain traffic for the first eight months of this year over last year, has been largely able to meet the increased demand for transportation. Moreover, while there are still serious car shortages, 22,000 hopper cars have been added to the fleet in the past year.

There is an urgent need, however, to take actions that will minimize problems moving grain and will ensure that the rail system can respond adequately to future demands. Because the railroads have been unable to earn adequate profits at current rate

levels, their equipment and physical plant are, in far too many cases, in poor condition.

In addition, the rail network, built to serve the region's needs in the late 19th century, is too large. Inadequate revenues, spread too thinly over too many lines, cannot provide for the rehabilitation and upgrading necessary to offer efficient transportation. Physical changes to the network are essential.

As a general proposition, however, we must recognize that the prospects of abandonments are disturbing to the shippers and communities involved. Our approach is to address the problem of excess rail capacity without denying shippers and communities the right to rail services where they are willing to pay the costs of such services. When we talk about abandonments, it is important to realize that States, shippers, carriers and labor have opportunities to investigate alternatives to abandonment in cases where lines are not profitable. I would like to list four of these. First, under section 401 of the 4R Act, consolidation and coordination of facilities can take place. Where there are two branch lines serving an area, perhaps only one can be profitable. It is often possible to work out an arrangement where service will continue and become profitable by consolidating or coordinating those facilities. Second, the Local Rail Services Assistance Act of 1978 enables states to put capital funds into

branch lines before they are abandoned, so that they can be made profitable. Many states that were not previously interested in subsidizing lines that had been abandoned are now developing plans and some have initiated projects to rehabilitate selected lines under the new provisions. Third, agreements among the Federal Railroad Administration, the Economic Development Administration, and the Farmers Home Administration will allow coordination of several Federal programs that can provide assistance for local service projects. Fourth, our successful labor-management terminal cooperation program can be expanded to branch line situations. In some cases where branch lines are unprofitable, arrangements between labor and management to increase operating efficiency may save both the branch line and jobs.

Many people are concerned that increased abandonment will injure small towns and will necessitate additional trucking -- using more fuel and damaging roads. Studies of abandonments in Iowa and Minnesota have found the impacts of abandonments on rural communities to be relatively minor. Commercial operations have adjusted to allow the communities to maintain a healthy economic base. With regard to rural roads and bridges, many will need to be upgraded, even if no rail lines are abandoned, to move larger farm trucks and equipment, school buses, and many delivery

trucks. Most of the non-farming traffic to and from rural communities shifted from rail soon after trucks were developed, and growth of this highway traffic continues.

As to fuel consumption, it could actually be reduced by some abandonments, since low-density railroad branchline operations are among the least fuel efficient of all rail operations. Also, the abandonment of some lines and the use of rail subterminal train-loading elevators could reduce the need for long-distance trucking, saving fuel and reducing wear on the highways.

Turning now to the issue of railroad regulatory reform, I would first like to make several general observations. Financially weak railroads cannot provide good service to anyone, including the agricultural community. More Federal money or Federal control will not provide a satisfactory answer. Nearly a century of ICC economic regulation of the rail industry has not produced a vigorous and sound rail transportation system in the United States. Major reforms must be adopted immediately if we are to revitalize the railroad system on which we depend. As the President said in his March message to Congress on rail reform, "we must seek to create an environment in which the railroads themselves can regain their economic health by aggressively improving their operations and profitability."

The philosophy of the regulatory reform bill submitted by the Administration last March is that regulation should be minimized and the workings of the market should be relied on to the maximum extent possible to permit each carrier to respond individually to the needs of its particular customer. Regulation should be limited to preventing excessive abuses of market power, but it should not interfere with a railroad's management of its own operations, or determination of the rates and service that should be offered in response to market conditions. We are willing to consider compromise legislation which recognizes these principles.

The aspect of regulatory reform that is critical to the rail car supply problem is rate flexibility. In particular, the ability of the railroads to set rates and terms of service in contracts and to adjust rates in the face of changes in demand are at the core of the problem as we see it. In order to meet peak demands, the railroads must be able to charge rates that reflect the cost of cars that are not well utilized throughout the remainder of the year. Aside from helping to ensure an adequate supply of cars, higher rates in peak periods will encourage some shippers to move their output at times when demand is less pressing.

One of the shippers' biggest complaints is that car supply and transit times are uncertain, to the point where rail service is not used. For many shippers the answer could well be

contracts with rail carriers that provide for a fixed supply of cars, and guaranteed transit times, in return for a rate that covers all costs and market conditions and earns a profit to the railroad sufficient to make the contract worth entering. Car utilization by the railroads would improve under contract terms, and we would see more round trips out of each car.

Some small shippers have expressed concern about whether contract rates would be made available to them. Contracts actually could serve small shippers best by giving them a means to assure service. We expect that railroad contract rates will benefit all shippers large and small.

For contract rates to work, however, it is essential that once negotiated, contracts cannot be altered by regulatory fiat. The antidiscrimination provisions in existing law must be clarified to permit contract rates unambiguously. Finally, contracts should not be reviewable by the ICC except in response to specific complaints of discrimination or failure to meet the common carrier obligation.

Demand-sensitive rates which adjust the price for service depending on the peaks and valleys of seasonal and other demands must also be allowed. The present huge foreign grain sales so beneficial to our balance of payments are an example of peak demand that could be met in advance with demand-sensitive rates.

However, these rates must be freed of significant restrictions if they are to serve the needs of those who use them, particularly where there is unregulated competition in the form of trucks and barges that can change rates quickly.

We strongly urge that the rail reform bill that is enacted by the Congress make adequate provision for contract rates and for demand-sensitive rates. If it does not, there will be no way to provide effective peak rail service, short of calling on the taxpayer for substantial help, and none of us should want to go down that path.

One other aspect of our regulatory reform proposals that deserves your consideration is the abandonment provision. For those rail lines that cannot be made to cover costs, our bill's abandonment provision will allow the necessary rationalization of the rail system by providing clearer guidelines for the abandonment process. This will eliminate the burden such lines place on other rail traffic. It is far better to permit the abandonment of unprofitable segments than to allow a whole railroad to go bankrupt, and far fairer than to require shippers on other lines to pay more than their share of the railroad's costs. Under the Administration's bill, the ICC would still review proposed abandonment applications, pursuant to a public convenience

and necessity test, but its investigation would be subject to strict standards and time limits. The application would have to be granted if the railroad could show that operating the line were non-compensatory, or that the benefits of abandonment were to exceed its cost to the public. However, service would be continued on a line if an interested party offered to subsidize operations or purchase the line and the ICC found that the subsidy or purchase price were adequate according to statutory standards.

Before closing this discussion of railroad issues, I want to point out some of the Department's other efforts to improve rail service. FRA's Freight Car Utilization Program, which has already achieved two changes that have improved the efficiency of equipment utilization, is continuing. The FRA program led to the use of hourly car hire rates and to the clearinghouse concept, which reduces empty car movements. Further, a major project

now underway in cooperation with the Missouri Pacific Railroad will lead to the implementation of an automated car scheduling system. Every car to be moved on the railroad, whether loaded or empty, will be given a detailed trip plan from origin to destination. This will provide management the ability to project workloads at individual points, and will discipline the operation of the railroad. In a separate but related effort, FRA is developing a demonstration project that will provide an improved, computerized information system for the Houston terminal. Accurate inventory and disposition information will be made available to terminal officers for planning purposes, and complete switching instructions will be given to switch crews in a timely fashion, so that cars can be handled through the complex terminal quickly, reliably and efficiently.

Another effort jointly sponsored by the FRA, the Association of American Railroads and rail labor involves co-operative efforts to identify and test changes that will improve the efficiency of terminal operations. Labor-Management Terminal Projects in St. Louis, Chicago and Houston have developed many changes that improved the terminals efficiency.

Let me now discuss our highway system's ability to handle agricultural movements. Here, again, there are questions about both the state of the right-of-way and the effect of Federal regulation

on the carriers. Almost all agriculturally related commodities, whether they are the final product of a growing process or are inputs such as fertilizer or seed depend on the rural roads system to make the connection between origin and destination. The rural roads system is made up of several road types. There are Interstate and other principal arterials which service line haul trucking. There are minor arterials and collector roads providing county-wide service and access to the Interstates and there are local roads serving as specific site access points. Typically, Federal and State funds are used primarily on the arterials and collectors. Local rural roads generally must rely on county and municipal property taxes as their source of funding.

In evaluating the condition of the rural roads system we look at lane width, mileage, number of lanes, average daily traffic, ton-miles of freight carried, and other factors that describe operating characteristics. Evaluations are made periodically from data provided by the states and do not include rural roads, since the state usually has no jurisdiction over them. In a 1977 assessment, we found that rural road conditions had deteriorated slightly in the five-year period ending in 1975, and that trend is expected to continue. Pavement condition, the fundamental criterion, slipped for rural arterials and collectors on a significant

amount of rural mileage. This is likely to continue since many states' priorities are such that all roads are not maintained to a particular given standard. The alarming fact, however, is that pavement deteriorates at an increasing rate, and we will not be surprised if the next assessment, in 1980, will show further slippage in overall rural road conditions.

Bridges represent the weak link in the rural roads system. While the size and weight of agricultural vehicles and trucks hauling products have increased dramatically since the early 20th century, bridges built to service those loads have not been replaced or reinforced as quickly. In 1977 we found that some 21 percent of rural arterial bridges (excluding Interstates) and 30 percent of rural collector bridges were structurally or functionally deficient. Many have been posted for weights lower than those for which they were originally designed, placing a constraint on the capacity of the surrounding roads system.

Except for Interstate funds, all Federal-aid highway money eligible for use in rural areas may be used on a wide range of projects, whether designed to facilitate the flow of agricultural products or to provide access to ports and terminals. In the case of Interstate funds, only those projects on the Interstate system and approved by FHWA are eligible. Since this system is

being completed, no new projects may be financed under this program. In addition to regular funding sources, the safer off-system roads program and the bridge replacement program provide a source of funding to begin the much-needed bridge and highway work. The Surface Transportation Assistance Act of 1978 authorized approximately \$4.2 billion for bridge work over a four-year period, \$800 million for off-system roads, and \$360 million (combination trust fund and general funds) for rail-highway crossing improvements, including grade separations. Any or all of these funds could be directed towards improving the function of rural roads as a vital link in the movement of agricultural commodities.

I cannot emphasize enough how concerned Secretary Goldschmidt is with making sure that our highway system is put in, and kept in, first-class condition. As he sees it, we are entering an era in which preservation of our existing road system rather than new construction should be our chief concern.

An aggressive preservation program now, will enhance the use of our highways and reduce the need for greater expenditures in the future. Except for Interstate funds, all Federal-aid highway funds may be used for what we call the Three R's: resurfacing, restoration and rehabilitation. We plan to encourage the States to

use funds in this manner. A separate authorization exists for Three-R work on the Interstate System.

Let me now turn from the highway system to a discussion of the trucking industry which operates over that system. As you are probably aware, truckers who haul many agricultural commodities are exempt from ICC regulation. Nonetheless, there are important ways in which motor carrier regulation should be changed in order to improve the carriage of farm products. Our proposed Trucking Competition and Safety Act of 1979 would improve substantially the opportunity for agricultural haulers to lower costs and provide better service to the farmer. One important factor is the ability of exempt haulers to get back-hauls. Our bill would raise from 15 to 50 percent the tonnage of regulated freight that can be hauled by agricultural cooperatives, thus giving them the opportunity to balance their operations. The exemption itself would be expanded to include all processed foods and edible items for human consumption, farm implements and machinery, fertilizers, feed, seeds and agricultural chemicals. Finally, the bill would exempt all truckload transportation from ICC regulation after two years. This last provision would eliminate many of the problems now faced by owner operators in trying to get return hauls with which to balance the agricultural movements into major population centers.

While it is not directly connected with the grain movement question, we know that many people in rural areas are concerned about the effect of trucking regulatory reform on small community service. We believe that the current deplorable state of small community service is a reason for proposing change, not resisting it, and we are convinced that our legislation would actually enhance small community service. The Administration has carefully studied the problem of small community service and our bill includes specific measures designed to promote this service. Many of these pro-small community provisions are proposals to end present regulatory practices, such as route and commodity restrictions, which impair small town service.

We've considered whether changes to the regulatory system would limit the effectiveness of the common carrier obligation imposed on ICC-regulated carriers. We have concluded that the common carrier obligation does not ensure small town service now. Today, carriers often abandon small community service without notifying the ICC. As far as we can determine, when a carrier wants to stop service, it merely stops. Further, due to resource limitations, the ICC is unable to monitor service levels or to ensure that carriers perform even minimal service. A carrier wanting to institute service in the same market, however, is

prevented from doing so unless he can afford to go through the costly and time consuming procedure of securing a certificate of public convenience and necessity from the ICC. Accordingly, we are convinced that our trucking regulatory reform bill offers no threat to small community service. In fact, it should improve it.

Our bill offers an efficient and equitable way to ensure that small communities receive necessary and reliable trucking service. Let me highlight some provisions in our bill which would improve trucking service to small communities.

1. The general policy statement governing ICC decisions emphasizes small community service.
2. The public convenience and necessity standard emphasizes increased service to small communities.
3. Route restrictions are liberalized to permit carriers to serve intermediate points, whether or not they are on a carrier's designated route.
4. The program for phased route expansion without ICC approval emphasizes increased service to small communities.
5. The agricultural commodity and agricultural co-op exemptions are substantially broadened, thereby reducing empty back-hauls and ensuring improved small community service.

6. Pricing flexibility is expanded, allowing lower back-haul rates to small communities.
7. Any fit, willing, and able carrier is allowed to enter a market no longer served by an authorized carrier or a railroad.
8. Entry is eased for buses and trucks to transport shipments of 500 pounds or less, promoting service to small towns, where a high percentage of shipments are small.

I would also like to assure you that our bill does not change the exit provisions of present law. We would not limit the ICC's present authority to use that law to enforce the common carrier obligation.

Since one of our principal concerns is export grain, I would like to spend some time discussing the situation on our inland waterways. The nation's inland waterway network plays a major role in handling grain export traffic. Almost half of all U.S. grain exports went through the New Orleans port area in recent years. The major portion of this export flow travels by barge on the Mississippi River System. This low cost energy efficient mode has been a major factor in handling the steadily increasing export flows of agriculture products.

As one of our principal concerns is export grain, we must look at the situation on our inland waterways with considerable interest. The nation's inland waterway network plays a major role.

The most significant constraint on the inland system at present is the capacity of the present facility at Locks and Dam 26 at Alton, Illinois. In 1978, 61 million tons of traffic moved through this facility, which the Corps of Engineers estimates has a maximum capacity of about 73 million tons. Delays for tows waiting to lock through at Alton have been increasing during peak traffic demand. The average tow waited 22 hours before locking through this past September, 30 hours in October and 38 hours so far in November.

Congress has already acted to increase capacity at Locks and Dam 26 by enacting Public Law 95-502 which provides for replacing the present facility with a new structure containing a single 1,200 foot lock. This law also requires the Upper Mississippi River Basin Commission to evaluate the economic need for a second lock in the Alton facility.

On October 23, a Federal District Court rejected a suit brought by railroad and environmental groups in 1974 to halt construction of the Locks and Dam 26 replacement. Although this decision may be appealed, the Corps of Engineers may now proceed with construction, and is, in fact, doing so. They have awarded

a seven million dollar contract for bank stabilization and are reviewing bids on a \$41 million contract for a coffer dam. While construction of the replacement facility could take as long as eight years, it will ensure that there is capacity to handle future waterway grain traffic.

During the last year, an 82-day strike by grain handlers at the Port of Duluth put increased pressure on other transportation facilities. Now that this strike is over the pent-up demand has resulted in a three day extension of the normal closing of the St. Lawrence Seaway System to December 18.

Ports are an integral part of any transportation system used for the shipment of foreign trade. We not only recognize the essential role ports play in this transportation system, but we also understand the importance of the connection between inland modes and ports for the smooth and efficient flow of our exports.

According to a recent Maritime Administration study on dry bulk carriers, approximately 77 percent of our export grain shipments exit the country through Gulf Coast ports. This study forecasts that between 1980 and 1990 this export grain traffic will increase by almost 33 percent. The Mid-America Ports Study, released in June this year, indicates that the supply of grain loading and unloading facilities, both at river ports and export ports, does not match demand and that this gap will continue to

increase through the year 2000. The grain facilities deficit can only be exacerbated if we do not ensure that effective and efficient port connectivity exists in the 1980's.

As I mentioned at the beginning of my testimony, on November 9, Secretary Goldschmidt announced two new initiatives designed to help solve the transportation problems of the next decade. First, he directed that all regional transportation planning must include a goods movement component and specifically must deal with the link between rail and highways, particularly in port communities. Second, he has initiated a cooperative study with the Department of Commerce that will investigate the inland transportation service at port cities. This analysis will be designed to tell us what we can do to make sure that this nation's ports have the transportation system they will need to accomplish their role as essential links in our international transportation system. This investigation will include a review of the dry bulk transportation system, including port facilities and inland connections.

This completes my survey of our transportation system's ability to move agricultural produce and the Department's programs and initiatives aimed at improvement. As I stated earlier, the system is barely adequate and a lot needs to be done to make it perform the way it should. Key requirements are that Congress

take positive action on the regulatory reform proposals now before it; that the Department analyze and correctly identify problems in the connections in ports between deep-sea shipping and the inland modes; and that we reverse the deterioration of our highway system.

I will be pleased to answer any questions.